VZCZCXRO8661
PP RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHFR #0212/01 0421456
ZNR UUUUU ZZH
P 111456Z FEB 09
FM AMEMBASSY PARIS
TO RUEHC/SECSTATE WASHDC PRIORITY 5526
INFO RUCPDOC/USDOC WASHINGTON DC
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHGV/USMISSION GENEVA 2992
RHEHAAA/WHITE HOUSE WASHDC

UNCLAS SECTION 01 OF 02 PARIS 000212

STATE FOR EEB/TPP/MTAA/ BRIAN NAFZIGER
STATE PASS USTR FOR ROY MALMROSE

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ECON EFIN ETRD PREL WTO FR
SUBJECT: FRANCE ROLLS OUT AUTO SUPPORT PROGRAM

REF: STATE 004753

NOT FOR INTERNET DISTRIBUTION

SUMMARY

¶1. (SBU) President Sarkozy announced a 9 billion euro aid package for France's struggling auto sector. The sector provides direct and indirect jobs for nearly 10 percent of the work force. The GOF plan includes loans for Renault, Peugeot, Renault Trucks (Volvo) and their suppliers and incentives for consumers to use "greener" vehicles. Participants are required to keep production in France, forego bonuses, and assist struggling suppliers by contributing to a special fund. An important aspect of the government's efforts is to help the French auto industry adapt to demand for cheaper and more environmental-friendly models. Central to the French economic stimulus and recovery plan, the auto package has grown by nearly 2 billion euros since it was first sketched out on January 20 in a GOF briefing to the French auto sector. End Summary.

The Government Package

¶2. (U) President Nicolas Sarkozy announced February 9 that Renault SA and PSA Peugeot-Citroen will each receive government-backed loans totaling three billion euros over five years. Renault Trucks, which is owned by AB Volvo of Sweden, is to receive 500 million euros. The government loans will allow Renault and Peugeot-Citroen to "prepare calmly for the future" the President noted. "This is not a gift. It is not a subsidy. It is a loan offered at an interest rate of 6 percent," Sarkozy said. Media commentary suggests market rates on similar terms would be as high as 10 - 12 percent.

¶3. (U) The GOF will also double its support to auto industry suppliers, to 600 million euros, through the suppliers' fund set up on January 20 during a summit co-organized by the GOF and industry to address plunging demand. The fund is designed to serve as a source of long-term capital for equipment makers. Sarkozy also announced a doubling (to two billion euros) of government guarantees for RCI Banque and Banque PSA Finance, the financing arms of Renault and Peugeot.

¶4. (U) Sarkozy also announced that loan guarantees of up to 5 billion euros for small, medium and intermediate sized companies under France's previously announced stimulus package, would be dedicated to companies in the auto sector. The President stated that in addition to the "bonus/malus" incentives instituted last year for carbon-efficient new cars, France will provide further incentives of up to 1000 euros for car buyers who scrap higher

emitting older vehicles.

AID TIED TO KEEPING JOBS IN FRANCE

¶5. (SBU) As part of what French authorities call the "Auto Pact," Peugeot-Citroen and Renault have pledged "to close no sites in France for the duration of the loan and to do everything possible to avoid job losses," Sarkozy explained. Family-run PSA Peugeot-Citroen is traditionally highly independent of the GOF and reportedly had trouble with the terms but preserved some margin to restructure operations through voluntary buyouts in France. The GOF has a 15 percent stake in Renault and reportedly will not increase this stake, despite previous rumors to the contrary.

¶6. (U) Both French car makers have also pledged to use the 3 billion euros of new, low-interest loans to develop fuel-efficient, low-emission vehicles. PSA will continue research on a range of cleaner technologies, such as stop-start systems, hybrid powertrains, plug-in hybrids and electric cars. Renault says it will use the fresh funds "to survive the crisis and finance its strategic projects in France, particularly the development of vehicles with zero or very low CO2 emissions." Both companies have also promised to build new vehicles in their French factories in the coming years. PSA said it will launch "one or more" new models in each of its five assembly factories and will keep employment in France at current levels. Renault also said it will build five new models as well as a new engine in its French factories by 2012. Executives at both firms have agreed to forgo their bonuses.

--- ------
Improving Competitiveness of the French Auto Sector
--- ------

¶7. (SBU) Junior Industry Minister Luc Chatel stated that in addition to a "two-pronged problem of demand and financing," the auto sector is facing "a structural challenge in terms of competitiveness." Even before the current downturn, Renault and Peugeot had begun to move manufacturing to lower cost countries in Eastern Europe, Turkey and Asia. Renault CEO Carlos Ghosn contended earlier this year that the production cost of a small Renault car is 1,400 euros higher in France than in Turkey or Eastern Europe because of labor costs. The two auto companies' business model has largely been based on greater profitability through mass market cheaper cars produced in low labor cost countries and sold across the European market. During his February 6 television interview, President Sarkozy criticized such activities, terming it "improper for French car manufacturers to produce cars in the Czech Republic for export to France." Responding to Renault CEO Ghosn suggestion to suspend the French "professional tax," a costly local business tax levied on company assets, Sarkozy has announced his intention to repeal the tax by the end of 2010 "to keep factories in France." He added that the resulting budgetary shortfall of some 8 billion euros would have to be replaced by other taxes, such as a carbon tax.

Saving Jobs and Industry

¶8. (SBU) During the presentation of his 26-billion-euro economic stimulus plan earlier this year, President Sarkozy had singled out the automobile sector as being in need of state help. There are some one million unsold cars in factory and dealer inventories in France. With slumping demand, Peugeot and Renault have cut production, eliminated 4,000 jobs and temporarily shut factories. In response, in addition to banning plant closures in France for the time being, President Sarkozy has also introduced a "social" dimension to his auto plan: an increase in short-term unemployment benefits and a loosening of restrictions on partial employment that will help to keep more car workers employed, at least part time.

Comment

¶9. (SBU) The auto rescue plan has been long in coming. Peugeot has tried to put on the brakes to minimize GOF interference in the

industry as much as possible. However, as it stands now, both French car manufacturers will be subject to government review of most operations for as long as they receive government assistance. President Sarkozy is likely to remain unapologetic for his suggestion that French carmakers should not invest elsewhere in the EU and re-export to their home market. After something of a lull in Commission - France and France - member state spats during the French EU presidency, the strong reaction by the Czech Government, the current EU President, indicates we may gearing up for a dust-up over auto sector aid.

PEKALA